



FEDERAL ELECTION COMMISSION

WASHINGTON, D C 20463

AUG 24 2004

**Charles C. Owen, Esq.
14007 Longtree Drive
Little Rock, AR 72212**

**RE: MUR 5514
Charles C. Owen**

Dear Mr. Owen:

On August 12, 2004, the Federal Election Commission found that there is reason to believe you violated 2 U.S.C. § 441f, a provision of the Federal Election Campaign Act of 1971, as amended ("the Act"). The Factual and Legal Analysis, which formed a basis for the Commission's finding, is attached for your information.

You may submit any factual or legal materials that you believe are relevant to the Commission's consideration of this matter. Please submit such materials to the General Counsel's Office within 15 days of your receipt of this letter. Where appropriate, statements should be submitted under oath. In the absence of additional information, the Commission may find probable cause to believe that a violation has occurred

Requests for extensions of time will not be routinely granted. Requests must be made in writing at least five days prior to the due date of the response and specific good cause must be demonstrated. In addition, the Office of the General Counsel ordinarily will not give extensions beyond 20 days.

If you intend to be represented by counsel in this matter, please advise the Commission by completing the enclosed form stating the name, address, and telephone number of such counsel, and authorizing such counsel to receive any notifications and other communications from the Commission.

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This matter will remain confidential in accordance with 2 U.S.C. §§ 437g(a)(4)(B) and 437g(a)(12)(A), unless you notify the Commission in writing that you wish the investigation to be made public.

For your information, we have enclosed a brief description of the Commission's procedures for handling possible violations of the Act. If you have any questions, please contact Roy Q. Luckett, the attorney assigned to this matter, at (202) 694-1650.

Sincerely,



Bradley A. Smith
Chairman

Enclosures
Factual and Legal Analysis
Procedures
Designation of Counsel Form

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FEDERAL ELECTION COMMISSION
FACTUAL AND LEGAL ANALYSIS

RESPONDENT: Charles C. Owen

MUR 5514

I. GENERATION OF MATTER

This matter was generated based on information ascertained by the Federal Election Commission ("the Commission") in the normal course of carrying out its supervisory responsibilities. *See* 2 U.S.C. § 437g(a)(2).

II. THE APPLICABLE LAW

The Federal Election Campaign Act of 1971, as amended ("the Act") provides that no person shall make a contribution in the name of another person or knowingly permit his or her name to be used to effect such a contribution, and that no person shall knowingly accept a contribution made by one person in the name of another person. 2 U.S.C. § 441f.

III. FACTS AND ANALYSIS

A. Shelly Davis' Memorandum

Information in the Commission's possession alleges that CWS may have reimbursed campaign contributions to multiple federal campaigns through company payments of fraudulent invoices, or other reimbursement vehicles, to conduits who were outside vendors to CWS. Although a December 3, 2002 memorandum to CWS board members from Shelly Davis, administrative assistant to former Community Water System, Inc. ("CWS") General Manager Greg Smith, refers generally to multiple individuals who were instructed to contribute with the expectation of reimbursement, she fully identifies by name only attorney Heartsill Ragon III of

Gill Elrod Ragon Owen & Sherman P.A. ("Gill Law Firm"), who provided legal services to CWS.¹

According to Ms. Davis' memorandum, CWS engaged in political contribution reimbursement activity in 2002 in connection with an August 9, 2002 fundraiser for Congressman Berry and an August 15, 2002 fundraiser for Senator Hutchinson. CWS allegedly reimbursed Heartsill Ragon III for contributions made to the campaigns of Congressman Berry and Senator Hutchinson. Ms. Davis states that Mr. Smith requested that Mr. Ragon send his invoices before the contributions were actually made:

The Commission also possesses a copy and a "corrected" copy of Gill Law Firm invoices dated July 29, 2002 and an invoice purportedly revised dated August 29, 2002. The original July 29, 2002 invoice includes an entry for \$2,000 described as "miscellaneous reimbursements." The "corrected" July 29, 2002 invoice reflects a change in the description of the \$2,000 in expenses from "miscellaneous reimbursements" to "series of intraoffice conferences re: various long-term planning, finance and operational issues."² The August 29, 2002 invoice has an entry for 15.40 hours of legal services for "series of intraoffice conferences re: various long-term

¹ According to Dun and Bradstreet reports, the Gill Law Firm has been incorporated since 1994. Heartsill Ragon III is listed as a Vice President of the firm.

² Although the Commission does not know the actual date that the amended invoice was submitted, the written notes (author unknown) on the invoice suggest that CWS received it on October 2, 2002.

planning, finance and operational issues.”³ At an indicated rate of \$130 per hour, this entry represents a request by the Gill Law Firm for payment of \$2,002.

According to Ms. Davis, Mr. Smith had directed Heartsill Ragon III to change the descriptions in the invoices. In her memorandum, Ms. Davis recounts Mr. Smith’s alleged discussion with Mr. Ragon about revising the invoices:

On September 25, 2002 Heartsill was here for the bond pre-closing Document signing. After the board of directors left Greg went and got the two invoices (July and August) and asked Heartsill to reword the Misc. charge to what he had written on a piece of paper. I didn’t see what the paper said but continued to watch for the changes. On Oct. 2, 2002 Heartsill faxed these two revised invoices to Les Hartwell for payment. I made copies.

Thereafter, Ms. Davis describes her efforts to gather additional evidence of the alleged reimbursement scheme. Ms. Davis states that while Mr. Smith was out of the office, she e-mailed Mr. Ragon and requested that he refax the invoices to her and he did so.

Mr. Ragon’s response to Ms. Davis’s e-mail, which the Commission possesses, states “Shelly, thanks for the note. I’ll refax. I’ve taken out the ‘extra’ \$1,000 charge. Thanks...H.”

³ Information in the Commission’s possession does not include a prior August 2002 invoice with the entry “miscellaneous reimbursements.”

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The Commission is also in possession of a December 4, 2002 e-mail from Ms. Davis, which appears to be directed to CWS board member Barbara Sullivan.⁴ Ms. Davis eventually confronted Mr. Smith regarding the alleged conduit contribution scheme, stating:

It is possible that Ms. Davis' alleged confrontation with Mr. Smith led him to contact the Gill Law Firm concerning her allegations. A November 21, 2002 memorandum from Heartsill Ragon III to Greg Smith addresses the Gill Law Firm's refund of \$4,002 in legal fees included in its July and August 2002 invoices, and suggests that questions had been raised about the services noted in these invoices.

In December 2002, CWS reportedly dismissed Greg Smith and terminated its working relationship with the Gill Law Firm, reportedly noting in a file memorandum that Mr. Smith's activities on behalf of CWS appeared to involve illegal contributions to political candidates and the falsification of records.⁵ Further, CWS board member Barbara Sullivan has stated in press accounts that she expects the full scope of the reimbursement scheme to reach at least \$20,000 in reimbursed contributions. See Bert King, *Water Chief Fired Due to Dereliction*, The Cabot Star

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⁵ See Christine Weiss, *CWS memo cites 'illegal acts' leading to firing*, The Heber Springs Sun-Times, January 3, 2003.

Herald, January 8, 2003. Both Mr. Smith and the Gill Law Firm reportedly have maintained their innocence; Mr. Smith and CWS currently are embroiled in two separate lawsuits (wrongful termination and breach of contract) growing out of the allegations in this matter.⁶

B. Analysis

FEC disclosure reports indicate that Gill Law Firm attorneys Heartsill Ragon III, Charles C. Owen and Chris Travis made contributions to Marion Berry for Congress and Tim Hutchinson for Senate in August 2002, collectively totaling \$4,000.⁷ These contributions are consistent with Ms. Davis' allegation that Greg Smith instructed Mr. Ragon on July 15, 2002 to submit invoices totaling \$4,000 for reimbursements of political contributions. Further, it appears that the Gill Law Firm's July and August 2002 invoices were the mechanisms by which the Gill Law Firm attorneys may have been reimbursed for their respective contributions. As discussed previously, the Gill Law Firm's original July 29, 2002 invoice that describes a \$2,000 expense as "miscellaneous reimbursements" was allegedly "corrected," on Greg Smith's instructions, to read "series of intraoffice conferences re: various long-term planning, finance and operational issues." Although the Gill Law Firm August 29, 2002 invoice does not include a similar "miscellaneous reimbursements" entry, Ms. Davis' memorandum suggests that a prior copy may have contained such language. The timing of Mr. Owen's contribution, and the fact that the \$4,000 contributed

⁶ See Sonja Oliver, *CWS board still facing lawsuits*, The Heber Springs Sun-Times, December 24, 2003. In February 2003, following Smith's termination, CWS reportedly dissolved its contract with Cenark. See Michelle Hillen, *Lawsuits fly: Fired utility chief, water system toe-to-toe Pipeline conflict of interest cited*, The Arkansas Democrat Gazette, July 1, 2003. Mr. Smith reportedly lost approximately \$1.3 million in Cenark fees due to the contract dissolution. *Id.* On December 23, 2003, citing breach of contract, Cenark reportedly sued CWS for "\$1.2 million-plus." See Randy Kemp, *Smith sues CWS for \$1.2 million*, The Heber Springs Sun-Times, January 30, 2004.

⁷ Mr. Ragon is reported as contributing \$1,000 to each committee; Mr. Travis is reported as contributing \$1,000 to the Berry committee; and Mr. Owen is reported as contributing \$1,000 to the Hutchinson committee.

by Gill Law Firm attorneys matches the aggregate amount of the firm's invoices to CWS, raise substantial questions about his contribution.

Therefore, there is reason to believe that Charles C. Owen violated 2 U.S.C. § 441f.

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